

Statement of John Schmitt, Economist, Center for Economic and Policy Research
December 5, 2005

Thank you very much for the opportunity to participate in this innovative E-Hearing on "The American Automobile Industry in Crisis: Threats to Middle-Class Jobs, Wages, Health Care, and Pensions." My name is John Schmitt, and I am an economist specializing in labor-market issues at the Center for Economic and Policy Research in Washington, DC.

I would like to focus my remarks today on the high economic costs that will be paid by laid-off workers at Delphi and General Motors. Through no fault of their own, thousands of workers at these two companies have already or will soon find themselves without jobs. All the available economic data suggest that these workers will face daunting economic challenges, most will see their standard of living drop substantially and, in some cases, those declines will effectively be permanent.

Every two years, the Bureau of Labor Statistics, together with the Census Bureau, conducts a large-scale, nationally representative survey of "displaced" workers --workers who have lost their jobs as a result of plant closings, downsizing, slack demand, and other reasons (excluding firings for cause). I recently analyzed the most recent version of this Displaced Workers Survey (conducted in January 2004), as well as the preceding five versions of the survey, which together cover over a decade of job displacements from 1991 through 2003. Taken together, the data document large and long-lasting economic costs for laid-off workers, particularly those laid-off from manufacturing jobs. The data also suggest that the economic costs of job loss have been rising in recent years.

The attached tables summarize the economic outcomes of displaced full-time workers over the three-year periods ending in 1994 and 2004, which include the two most recent recessions in 1991 and 2001. The first table presents results for all workers (see panel (a)). Of those displaced between 2001 and 2003, about one in five (21.1 percent) were unemployed in January 2004. An additional, 13.8 percent had dropped out of the labor force. About 7.8 percent of the former full-time workers were now in part-time jobs. Fewer than six-in-ten (57.2 percent) had found a new, full-time job. Even among those workers who had managed to find new, full-time work, two-thirds (66.3 percent)¹ were in a new job that paid less than the one they lost. More than one-third (36.3 percent) were in jobs that paid 20 percent or more below what they earned at their lost job.

The economic outcomes for workers laid-off from manufacturing jobs, such as those at Delphi and General Motors, were even worse. According to the data in Table 2, about 23.0 percent were unemployed; 17.0 percent had left the labor force altogether; only 54.4 percent had managed to find full-time work; and only 60.0 percent were in any kind of a job. Pay cuts were also bigger for manufacturing workers. Almost three quarters (73.2 percent) of those former full-timers who were in a new full-time job had taken a pay cut. Almost 40 percent (39.9 percent) saw their pay drop by 20 percent or more.

¹ Calculated from panel (a) of Table 1 as the total share of workers who experienced a decline in salary in their new full-time job, divided by the total share of workers in a full-time job $(20.8 + 17.1)/57.2$.

The remaining panels in Tables 1 and 2 provide similar breakdowns of the economic costs separately for men and women, blacks and whites, and service-sector works.

To summarize, the available data suggest that the economic costs facing laid-off workers at Delphi and General Motors will be high, including prolonged periods out of the labor force, protracted spells of unemployment, and significant wage cuts when they do find new jobs. These measures of the cost of job loss from the Displaced Workers Survey are almost certainly conservative since the survey does not allow us to track changes in benefit coverage for health insurance and pensions.

For a more complete analysis of recent trends in job displacement, please consult a copy of my report for the Center for Economic and Policy Research entitled: "The Rise in Job Displacement, 1991-2004: The Crisis in American Manufacturing," which is available at the Center's web site:

http://www.cepr.net/publications/labor_markets_2004_08.pdf

TABLE 1**Economic situation of displaced, full-time, workers, as of survey date, by gender, 1994 and 2004**

(Percent of all displaced, full-time, workers in same category)

	Not in labor force	Unem- ployed	Self-em- ployed	Part-time	Full-time	Employed	Change in real weekly earnings: new full-time job compared to lost full-time job			
							-20% or more	Below, but w/in 20%	Equal, above but w/in 20%	+20% or more
<i>(a) All</i>										
1994	11.4	20.1	6.1	9.1	59.4	68.5	21.4	16.6	12.7	8.7
2004	13.8	21.1	5.2	7.8	57.2	65.0	20.8	17.1	10.7	8.7
Change	2.4	1.0	-0.9	-1.3	-2.2	-3.5	-0.6	0.5	-2.0	0.0
<i>(b) Men</i>										
1994	8.2	20.6	7.4	6.4	64.8	71.2	23.3	18.6	13.6	9.3
2004	11.1	21.4	5.8	5.7	61.9	67.5	22.1	17.5	12.0	10.3
Change	2.9	0.8	-1.6	-0.7	-2.9	-3.7	-1.2	-1.1	-1.6	1.0
<i>(c) Women</i>										
1994	16.5	19.3	3.9	13.2	51.0	64.2	18.6	13.3	11.3	7.8
2004	17.7	20.7	4.3	10.8	50.8	61.6	19.1	16.5	8.8	6.5
Change	1.2	1.4	0.4	-2.4	-0.2	-2.6	0.5	3.2	-2.5	-1.3

Notes: Analysis of CEPR extract of Current Population Survey Displaced Workers Survey, 1994, 2004. Real weekly wages calculated using the CPI-U-RS.

TABLE 2

Economic situation of displaced, full-time, workers, as of survey date, by race and industry of lost job, 1994 and 2004

(Percent of all displaced, full-time, workers in same category)

							Change in real weekly earnings: new full-time job compared to lost full-time job			
	Not in labor force	Unem- ployed	Self-em- ployed	Part-time	Full-time	Employed	-20% or more	Below, but w/in 20%	Equal, above but w/in 20%	+20% or more
<i>(a) White</i>										
1994	11.2	17.4	6.9	9.6	61.8	71.4	22.3	17.3	13.1	9.1
2004	14.0	19.8	6.2	8.4	57.8	66.2	21.4	17.1	10.0	9.3
Change	2.8	2.4	-0.7	-1.2	-4.0	-5.2	-0.9	-0.2	-3.1	0.2
<i>(b) Black</i>										
1994	11.6	27.8	2.0	7.9	52.7	60.6	16.4	13.9	14.3	8.1
2004	11.9	26.0	4.3	8.2	53.9	62.1	18.0	15.7	12.1	8.0
Change	0.3	-1.8	2.3	0.3	1.2	1.5	1.6	1.8	-2.2	-0.1
<i>(c) Services</i>										
1994	9.8	18.3	7.7	10.2	61.7	71.8	21	17.5	13.3	9.9
2004	12.1	19.8	6.1	9.1	59	68.1	20.5	16.6	12.2	9.8
Change	2.3	1.5	-1.6	-1.1	-2.7	-3.7	-0.5	-0.9	-1.1	-0.1
<i>(d) Manufactur- ing</i>										
1994	13.9	22.4	3.6	7.3	56.5	63.7	22.5	14.9	11.9	7.2
2004	17.0	23.0	3.2	5.5	54.4	60.0	21.7	18.1	8.0	6.6
Change	3.1	0.6	-0.4	-1.8	-2.1	-3.7	-0.8	3.2	-3.9	-0.6

Notes: Analysis of CEPR extract of Current Population Survey Displaced Workers Survey, 1994, 2004. Real weekly wages calculated using the CPI-U-RS.